Primary Financial Statements
Summary of the Feedback Received in Outreach Activities

Objective

1 The objective of this agenda paper is to provide EFRAG TEG-CFSS members a more detailed update on the feedback received

EFRAG Outreach activities

2 EFRAG organized the following outreach events:

(a) *Input on the IASBs Exposure Draft General Presentation and Disclosures*: Online joint outreach event hosted by EFRAG, FSR – Danish Auditors, the Confederation of Danish Industry (DI) and the IASB (14 May 2020). For more details, please click here;

(b) *Time for a facelift? A new look for the income statement (Presentation)*: Online joint outreach event hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB (19 May 2020). For more details, please click here;

(c) *Time for a facelift? A new look for the income statement (Disclosures)*: Online joint outreach event hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB (26 May 2020). For more details, please click here;

(d) *Changing the Income Statement – Norwegian perspectives*: Online joint outreach event hosted by EFRAG, NASB, the NFF and the IASB (17 June 2020). For more details, please click here;

3 The Feedback Statements of each event will be published on EFRAG Website.

4 The EFRAG Secretariat also participated in working group meetings of different organisations such as the European Securities and Markets Authority (ESMA), The Corporate Reporting Users' Forum (CRUF), Accountancy Europe (AE), European Federation of Accountants and Auditors for SMEs, European Federation of Financial Analysts Societies (EFFAS), L'Autorité des normes comptables (ANC) and UK FRC.

5 Finally, the EFRAG Secretariat discussed this project with the EFRAG Insurance Accounting Working Group (IAWG), the EFRAG Financial Instruments Working Group (FIWG) and EFRAG User Panel (jointly with EFRAG TEG).

Feedback received from users of financial statements

6 The EFRAG Secretariat discussed the PFS project with the users of financial statements in several occasions. In particular:

(a) *Time for a facelift? A new look for the income statement (Presentation)*: Online joint outreach event hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB (19 May 2020).

(b) *Time for a facelift? A new look for the income statement (Disclosures)*: Online joint outreach event hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB (19 May 2020).

(c) Working group meetings with EFFAS (17 April 2020) and CRUF (23 March 2020)

(d) EFRAG TEG-User Panel meeting

7 In those meetings, the EFRAG Secretariat received the following key messages:

New defined subtotals and categories	• strong support for the IASB's efforts to improve the content and structure of the financial statements as it would improve comparability. • support for the IASB proposals requiring more granular information on the face of the financial statements, including new required subtotals and line items. • support for the IASB's proposals to define the subtotal 'Operating profit or loss'. However, users considered there is a need for the IASB to expand and better clarify the definition of 'main business activity', particularly when a manufacturing company provides financing to customers. • users welcomed the IASB's decision to not include the results of associates and joint-ventures within the operating category, however some questioned the relevance of the IASB's proposal to require the subtotal "Operating profit and income and expenses from integral associates and joint ventures" as it would give too much prominence to the IASB's distinction on integral and non-integral. Furthermore, including post-tax results led to inconsistent subtotals. **These issues were not raised in EFRAG DCL.** • did not consider useful to have the same labelling for the different categories in the statement of profit or loss and statement of cash flows when the different categories were not aligned. • mixed views on EBITDA: Some highlighted the importance of the subtotal EBITDA and considered that the reference to the use of *operating profit before amortisation and depreciation* was a step forward as it was similar to EBITDA. Some suggested, if EBITDA was not an IFRS specified measure, then it had to be clearly identified and disclosed. Finally, a number of users suggested the IASB to consider the subtotal *operating profit before amortisation, depreciation and impairment.* Some consider that neither a subtotal nor a disclosure is required. In its DCL EFRAG considered that it would have been useful to define EBITDA but as such measures have not been defined, they should be included in the scope of the MPM disclosures. • one user specifically mentioned that income and expenses from cash and cash equivalents should be included in the investing category because an entity had invested in asset and excess cash was by management decision. This presentation was also referred in EFRAG DCL.

	• mixed views on the presentation of unwinding of discount. Some considered that it should be included in operating category while others referred to the financing category as it reflected the cost to provide finance. In its DCL, EFRAG is seeking the views of its constituents.
Integral and non-integral associates and joint ventures	• provided mixed views on the IASB's to require separate presentation of integral and non-integral associates and joint-ventures. For example: o Some users supported the IASB proposals as they would provide useful information of what was operational and contributed to the core business. This is aligned with EFRAG DCL. o Some users considered that the distinction between integral and non-integral provided useful information but suggested that such information could be provided in the disclosures. o Some users acknowledged that separating integral and non-integral associates and joint-ventures could provide useful information, however the distinction was going to be very subjective and subject to management abuse, putting into question its relevance in the end. In its DCL, EFRAG also mentioned that the split will involve significant judgements and assumptions and it will need to be tested in practice. o Some users simply did not agree with the distinction as it was going to be a very subjective decision and would raise many questions such as the company's long term commitment to its investment.
Analysis of operating expenses by nature or by function	• provided mixed views on the analysis of operating expenses by nature or by function: o Many agreed with the IASB's proposals to not allow a mix presentation basis. In its DCL, EFRAG also supported the IASB's proposal to continue to require entities to present an analysis of expenses using either by-function or by-nature method. However, EFRAG suggested that the IASB to clarify when the ED allows a mixed basis of presentation. o Some considered that the presentation by nature provided the most useful information as such information can be better used for forecasting future cash flows and was the only way to have a consistent set of information with the cash flow statement. o Some supported the presentation by function (with more disaggregation) but called for more disaggregation, more guidance on the line items and disclosures by nature which is fundamental to understanding the dynamics of a business, including in the interim financial report. Receiving the information on an interim basis was valuable to ensure that forecasting was aligned with annual accounts. In its DCL, EFRAG is seeking the views of its constituents. • highlighted the importance of having a common practice within an industry for comparability purposes

Disclosures of MPMs	• considered that management-defined performance measures are useful for users of financial statements to better understand the business of a company. • strong support for the IASB's efforts to introduce discipline and transparency on the use of management-defined performance measures with disclosure in the financial statements. • however, lack of support for having MPMs on the face of the primary financial statements. EFRAG did not refer to this issue in its DCL. • the IASB needs to better clarify the meaning of public communication. • highlighted that having the management-defined performance measures being audited would give them more reliability. • agreed with the IASB not putting constraints on the calculation of management-defined performance measures. Some users noted that most of the adjustments to IFRS specified measures were related to impairments, restructurings and litigation settlements; • there is a need to test how companies would provide the proposed disclosures on MPMs and unusual items (both perceived to be complementary one to the other). • regretted that it did not include subtotals or metrics from the balance sheet (e.g net debt, ratios and adjusted revenue) and it was strange to draw a line at the statement of profit or loss.
Disclosures of unusual items	• provided mixed views on the usefulness of the IASB's proposal to define unusual items: o Some users considered that the IASB proposal to define and require entities to disclose unusual items would result in useful information. These users considered that the definition should be narrow to avoid abuse and that would be very helpful to be able to compare the unusual items to previous years, even if it was one year. o Some users questioned the need for the IASB to define and require entities to disclose unusual items, particularly when considering: - the IASB proposals on MPMs. - the semantics of unusual, non-recurring, extraordinary and other similar words which could potentially confuse users of financial statements. - potential translation issues. - the subjectivity involved as there is always uncertainty on whether similar events or transactions will take place in the future. - the difficulties of implementing such concept in practice. o Some users preferred instead separate disclosures on items that are not related to core business of the company. For

	example, restructurings, legal settlements and others identified in paragraph B15 in the ED. o Some noted that the definition of usual and unusual items needed to be further clarified as there was still a leeway for companies on the use of this definition.
Statement of cash flows	• general support for the statement of cash flows to start from operating profit or loss. Many highlighted the importance of having the reconciliation provided within the operating activities by the statement of cash flows prepared under the indirect method. • highlighted that there were a lot of issues with the statement of cash flows and that the IASB needed to look at the statement of cash flows from a comprehensive way at a later stage.
Other	• Many users highlighted the importance of having more guidance on disclosures and the accounting for **on reverse factoring**. Users of financial statements considered that the lack of information about such transactions was a widespread issue that involved significant amounts. In particular, users of financial statements mentioned the current asymmetry of information between banks (involved in the reverse factoring) and bondholders.

Questions for EFRAG TEG

8 Does EFRAG TEG has any questions or remarks on the feedback received from users of financial statements?

Feedback received from outreach activities with national standard setters

9 The EFRAG Secretariat discussed the PFS project with national standard setters in several occasions. In particular:

(a) *Input on the IASBs Exposure Draft General Presentation and Disclosures*: Online joint outreach event hosted by EFRAG, FSR – Danish Auditors, the Confederation of Danish Industry (DI) and the IASB (14 May 2020).

(b) *Changing the Income Statement – Norwegian perspectives*: Online joint outreach event hosted by EFRAG, NASB, the NFF and the IASB (17 June 2020).

10 These two events involved preparers as panellists in the debate. So, the feedback from these webinars mainly refer to preparers.

11 The EFRAG Secretariat also listened and participated in working group meetings of different organisations such as ANC and UK FRC. EFRAG also listened the Swedish webinar which is available online.

12 In those meetings, the EFRAG Secretariat received the following key messages:

General	• generally welcomed the IASB project on *Primary Financial Statements* and highlighted its relevance. • referred to the implementation costs for preparers and called for the IASB to compare the implementation costs for preparers with

	the added value for users before issuing a new IFRS Standard. **This issue was not mentioned in EFRAG DCL.** • implementation period of 18-24 months might be challenging if a significant change to the IT systems is required**. This issue was not mentioned in EFRAG DCL.**
New defined subtotals and categories	• generally welcomed the IASB proposals to improve the content and structure of the financial statements, as they would improve comparability. • comparability should be mainly considered for peers within the same industry and not across different industries (e.g. having the same subtotals across different industries may improve comparability but will to some extent also reduce the relevance of financial statements). Also called for use of the same financial reporting format within the same industry. **This issue was not mentioned in EFRAG DCL.** • need to further discuss the definition and presentation of operating and investing categories. In particular, some considered that the IASB should focus on providing more guidance on what should be considered as the 'primary' or 'core' business of a company (an approach similar to integral and non-integral associates and joint-ventures). **This issue was not mentioned in EFRAG DCL.** • questions from the audience on why cash equivalents (i.e. investments) are not part of the investment category. • questions from the audience on whether all unwinding, including IFRS 15 discounting effect, would be in the financing category. • the IASB proposals to introduce new definitions and subtotals were important, albeit users often need EBITDA and EBIT, which were not defined by the IASB. Called for more flexibility in regard to the use of non-IFRS specified subtotals such as EBITDA. • concerns (UK) that an entity cannot use columns to present management performance measures in the statement(s) of financial performance. This issue was not mentioned in EFRAG DCL.
Integral and non-integral associates and joint ventures	• no clear answer to the presentation of associates and joint ventures. • expressed concerns about the IASB's proposals to define and separately present integral and non-integral associates and joint ventures as not deemed useful for the users of financial statements and will involve significant judgement ("making the distinction is going to be difficult"). Alternatively, the split could be made through the eyes of management. Possible alternative definitions were also mentioned, such as entities that operate the same business segment or entities that have the same underlying exposures (e.g., prices for a certain product). These views are different from those in EFRAG DCL. • questions from the audience on how immaterial associates and joint ventures can be combined with other line items.

Analysis of operating expenses by nature or by function	• some questions on the usefulness of forcing companies to choose between a presentation by function or by nature and considered that companies should be allowed to use a mix approach if it would allow management to better present and communicate the way they manage their business. These views are different from those in EFRAG DCL. • for some the presentation by nature was maybe the most intuitive presentation, although a mix presentation could also be useful, particularly for some specific capital-intensive industries where it was important to have a separate line item for depreciation of PPE and impairments. These views are different from those in EFRAG DCL. • in UK the presentation of expenses by function is widely used. • a mixed approach basis was working well in some industries and considered that a change in current requirements would require a significant change of the IT systems. These views are different from those in EFRAG DCL. • questions from the audience on why it is important to prohibit mix of nature/function. • One preparer mentioned in regard to the disclosures by nature when presenting by function, providing the overall total expenses by nature was not very useful without relating the expenses to specific line items by function.
Disclosures of MPMs	• disclosures about MPMs would give assurance to users. However, there was a concern about the inclusion of some MPMs only. More specifically, the IASB proposals and ESMA guidelines had a different scope and, therefore, reconciliations of APMs and MPMs would be in two different places (inside or outside of financial statements) and not aligned. This would create barriers to the usefulness to users. **This issue was not mentioned in EFRAG DCL.** • cautioned about the inclusion of MPMs in the financial statements as in the end there would be many types of performance measures located in different parts of the annual reports, including IFRS performance measures, management performance measures, alternative performance measures, unusual items and integral and non-integral. These views are different from those in EFRAG DCL. • concerns that the IASB proposals seemed to increase significantly the disclosures in the future. **This issue was not mentioned in EFRAG DCL.** • concerns that public communication is a very wide concept.
Disclosures of unusual items	• questions on the usefulness of the IASB proposals as the proposed definition of unusual items was vague, narrow and highly judgemental. In addition, items under the scope of the IASB definition of unusual items were likely to be covered by the IASB's proposals of MPMs. These views are different from those in EFRAG DCL.

	• questions on the meaning of unusual items and how it would link to the risks of the business. For example, it is difficult to assure that impairments will not happen in the future and therefore to say that an impairment is an unusual item. **This issue was not mentioned in EFRAG DCL.**
Statement of cash flows	• generally agreed with the IASB proposals as the IASB proposals would provide more relevant information to users and would improve consistency and comparability. • using the operating profit as starting point for the indirect method was better than net profit. • support for the use of the indirect method as it provides a reconciliation to the income statement. • concerns about the requirement to separately present integral and non-integral associates and joint ventures, particularly when taking into materiality considerations. There were also good arguments for including in operating cash flow if a joint-venture had the same underlying business risk as company and earnings were recurring. • concerns from participants and questions from the audience regarding the use of the same labels in the income statement and cash flow statement though with different definitions.
Other	• to continue to work with the FASB on key issues such as presentation of financial statements to avoid differences between IFRS Standards and US GAAP. **This issue was not mentioned in EFRAG DCL.**

Questions for EFRAG TEG

13 Does EFRAG TEG has any questions or remarks on the feedback received from outreach activities with National Standard Setters?

Feedback received from EFRAG Working Groups

14 The EFRAG Secretariat also discussed with EFRAG FIWG and EFRAG IAWG.

15 From IAWG, the EFRAG Secretariat received the following key messages:

New defined subtotals and categories	• It would be useful to look at the regulatory and the accounting requirements holistically because of the capital disclosures • need for an alternative adjusted operating profit due to an expected increase of volatility under IFRS 17 when considering the interaction with IFRS 9. This issue was not specifically mentioned in EFRAG DCL.
Integral and non-integral associates and joint ventures	• questioned whether the position of integral and non-integral outside of operating profit made sense, particularly for life insurers. This is because many insurers, particularly life insurers, saw their investment return as part of their operating activities, including investments in associates and joint ventures, as they provided an

	investment return to policyholders. These views are different from those in EFRAG DCL.
Analysis of operating expenses by nature or by function	• agreed that in some cases entities should be allowed to follow a mixed approach, particularly for conglomerates that reflected different business activities on the face of the financial statements (insurance and banking). **This issue was not specifically mentioned in EFRAG DCL.**
Disclosures of MPMs	• insurance companies often use indicators which were not under the scope of MPMs, such as duration of asset and duration of liability and the combined ratio. • some members preferred a narrower scope on MPMs (only for MPMs in financial statements). Insurers communicated with users through a variety of different means and it would be logistically difficult to include reconciliations to every communication; it would create a significant audit challenge. • some members expressed support for having public communication defined as the communication released jointly with the annual report or interim report of the company, including earning releases, because anything that had an impact on the stock price should be included. Others thought that it was important to have only reconciliations of MPMs referred inside the financial statements and not more widely. • As the insurance finance income and expense is expected to be volatile the industry expects there will be a need for alternative performance measures. In particular, a preparer anticipated the need to continue to provide to the market a measure of their result, depurated from the mismatches due to the interaction of IFRS 9 and IFRS 17.
Disclosures of unusual items	• not easy to define unusual income, particularly when considering the challenge of having economic variances every year that were not necessarily predictive of future performance. These views are different from those in EFRAG DCL. challenge for insurers to explain the impact of a number of unusual economic events on the insurance finance income and expenses that are not predictive of future performance. • an unusual item should be something more like an extraordinary item. Restructuring costs were not unusual while a natural catastrophe once in hundred years was unusual. These views are different from those in EFRAG DCL.
Statement of cash flows	• the statement of cash flow was useless for users and supported a separate project on the topic in relation to financial institutions and the insurance industry.

16 From FIWG, the EFRAG Secretariat received the following key messages.

New defined subtotals and categories	• Agreed with EFRAG DCL that it would be important to have additional guidance on the notion of the 'entity's main business

	activity', or in the course of the entity's main business activity to help implementation and avoid diversity in practice. • Agreed with EFRAG DCL that challenges of applying the concept of main business activity to entities with multiple business activities, that include investing and financing activities. One of the concerns was to consider the perspectives of the legal entity (parent or a subsidiary) in the separate financial statements and of the group (already in EFRAG DCL). Particularly, when an entity has many subsidiaries. • Agreed with EFRAG DCL that the IASB should consider the interaction of the IASB proposals with existing regulatory frameworks on the presentation of financial statements (e.g. FINREP). • Suggested the IASB to add illustrative examples for conglomerates (e.g. Bank with Insurance). This issue was not specifically mentioned in EFRAG DCL. • Agreed with EFRAG DCL that that the ability not to split financing elements should be more restricted to avoid situations where a conglomerate does not split when it would be possible (like car manufacturer with banking activities for instance). • Called for the IASB to clarify that operating is a default category like some parts of the ED suggest. • Questioned the definition of the term 'risk management' and whether the IASB's proposals were aligned with the FINREP approach (to align income and expenses from hedged items, hedging instruments and risk management derivatives all in the same line). • The meaning of having an investing category for banks was questioned, particularly as all the derivatives are used to transform the risk. Some noted that it would be simpler to insert a separate line in the operating category. • On the financing category, it was noted that the IASB proposals would put pressure on the definition of 'cash equivalents' and it was going to be difficult to enforce it. This issue was not specifically mentioned in EFRAG DCL.
Integral and non-integral associates and joint ventures	• Would welcome more guidance on the distinction between integral and non-integral. The IASB was introducing a new concept, when compared to the existing guidance control, joint control, influence, etc. • Some numerous corporates have already implemented the concept of integral and non-integral associates and joint-ventures. It depends on jurisdictions, however, the guidance needs to be restrictive to avoid significant judgements. • Some noted that the IASB proposals would put stress on the accounting for under the equity method as it would raise measurement questions. This issue was not mentioned in EFRAG DCL.

Analysis of operating expenses by nature or by function	• Agreed with EFRAG DCL that the IASB needs to clarify when the ED allows, or even requires, a mixed basis of presentation when an entity presents line items under paragraphs 65 and B15 of the ED • Suggested that the criteria focused on the most useful information to users was very subjective. In addition, there could be cases where an entity may conclude that mixed presentation approach might be the most useful approach to users. Maybe focus on the “most relevant and reliable information to users”. These views are different from those in EFRAG DCL. • Where there is an entity in the group required to use by function presentation, while others use by nature, the consolidated statement is very tough to select which way to go.
Disclosures of MPMs	• No clear direction emerged on where to go (narrow or broader approach) to the presentation perimeter (financial statements VS communications issued jointly with the results). • One member from the audit profession, with reference to one of the two possible approaches suggested by EFRAG in its DCL (reconciliations required only when MPM are presented in the financial statements), observed that if entities were required to provide disclosures on MPMs only when they refer to them in the financial statements, this would create an incentive to use them only outside of the financial statements. One preparer expresses the preference for the narrower approach and questioned whether MPMs should be disclosed in the financial statements as they are non-GAAP measures and whether it was the IASB's responsibility to solve this issue. In addition, it would put pressure on what non-GAAP measures are. These views are different from those in EFRAG DCL. • Expressed concerns about the costs and difficulties related to auditing these measures. • questions on the IASB proposal that all the information included in the primary financial statements shall “faithfully represent the characteristics” of an entity’s financial performance when in fact the IASB was not placing any constrains on the calculation of management. This issue was not mentioned in EFRAG DCL.
Disclosures of unusual items	• Agreed with EFRAG DCL that neutrality in relation to equivalent reporting for unusual income and expense are relevant. • On Unusual and extraordinary items, the proposed outline of the DCL was supported. It was asked that the notion of extraordinary items should be clarified in the ED and not only in the basis for conclusions.
Other	• On conglomerates, a rules-based approach would increase complexity without ensuring consistency. Would welcome guidance on conglomerates but on a principles-based approach. • On Conglomerates, EFRAG’s recommendation to the IASB to introduce more discipline in assigning income and expenses to different business activities was supported. But it was questioned

	how the IASB were to enforce this, when going beyond the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Questions for EFRAG TEG

17 Does EFRAG TEG has any questions or remarks on the feedback received from FIWG and IAWG?

Feedback received from outreach activities with other organisations

18 The EFRAG Secretariat also participated in working group meetings of different organisations such as Accountancy Europe (AE) (10 March 2020) and European Federation of Accountants and Auditors for SMEs (17 April 2020).

19 In those meetings, the EFRAG Secretariat received the following feedback:

New defined subtotals and categories	• general support for the ED proposals to improve the structure of the PFS • questioned about the interaction of the IASB proposals with the existing structure established in the accounting directive, which is subsequently integrated into national law. This issue was not mentioned in EFRAG DCL • did not see a benefit of the accounting policy choice provided in paragraph 51 of the ED not to classify in the financing category income and expenses from financing activities and cash and cash equivalents when an entity provides financing as a main business activity • support for the proposal to classify interest and expenses on other liabilities (unwinding of discount) in financing category. • no definition in the ED of what 'cost of sales' is. This issue was not specifically mentioned in EFRAG DCL.
Integral and non-integral associates and joint ventures	• support for the ED proposal on separate presentation of integral and non-integral associates and JVs although significant judgment would be required in the process. Additional guidance should be provided by the IASB to help determine which entities are integral and which non-integral to the business
Analysis of operating expenses by nature or by function	• no strong preference about the proposed by EFRAG alternatives on presentation of analysis of operating expenses by nature or by function • include 'impairment' as a line item in paragraph B15 of the ED. This issue was not mentioned in EFRAG DCL
Disclosures of MPMs	• MPMs were not being used for SMEs as they usually only referred to GAAP numbers. Only when there are M&A projects, non-gaap measures are used.
Disclosures of unusual items	• If the unusual items are going to be defined, this could be significant for SMEs as currently there is no such guidance on this

Questions for EFRAG TEG

20 Does EFRAG TEG has any questions or remarks on the feedback received?